

**JEFFERSON-SCRANTON  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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**JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2005 Election)

Mike Holden	President	2006
Sam Harding	Vice President	2005
David Pedersen		2006
Teresa Hagen		2005
LuAnn Carlson		2007

(After September, 2005 Election)

Sam Harding	President	2008
David Pedersen	Vice President	2006
Mike Holden		2006
Teresa Hagen		2008
LuAnn Carlson		2007

**SCHOOL OFFICIALS**

Michael Haluska	Superintendent
Colleen Guillman	District Secretary
Sid Jones	District Treasurer

## **Independent Auditor's Report**

To the Board of Education of the  
Jefferson-Scranton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of Jefferson-Scranton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Jefferson-Scranton Community School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our reports dated October 19, 2006 on our consideration of Jefferson-Scranton Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 34 through 36 are not required parts of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Jefferson-Scranton Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2005 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 19, 2006

# JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Management's Discussion and Analysis

Jefferson-Scranton Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$9,405,622 in fiscal 2005 to \$9,546,621 in fiscal 2006, while General Fund expenditures increased from \$9,544,040 in fiscal year 2005 to \$9,775,742 in fiscal 2006.
- The increase in General Fund revenues was primarily attributable to increases in state foundation and other state funding. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits. The decrease in the undesignated unreserved General Fund balance is primarily attributable to inadequate funding increases necessary to keep up with increasing costs.
- The District continues its sharing arrangement with Paton-Churdan Community School District for grades 9-12 for a half day of education - students from Paton-Churdan are transported to Jefferson-Scranton High School.
- The District continued its 28E sharing agreement with East Greene Community School District for Vocational Agriculture, Industrial Technology, and other high school courses. The Jefferson-Scranton District has an average of 50-60 students from East Greene taking classes each semester.
- The Jefferson-Scranton Board approved early retirement for teachers during the 2005-06 school year.
- The District passed the School Infrastructure Local Option Sales Tax for Greene County. The tax was implemented July 1, 2004. Proceeds are being used for various projects throughout the District as well as property tax relief. The District discontinued levying the Physical Plant and Equipment Levy property tax.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations *in more detail* than the government-wide statements.
- The statements for *governmental funds* explain how basic services, such as regular and special education, were financed in the *short term*, as well as, what remains for future spending.
- The statement for *proprietary funds* offer *short-term* and *long-term* financial information about the activities the District operates *like businesses*, such as food services and community education.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's budget for the year.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Jefferson-Scranton Community School District***

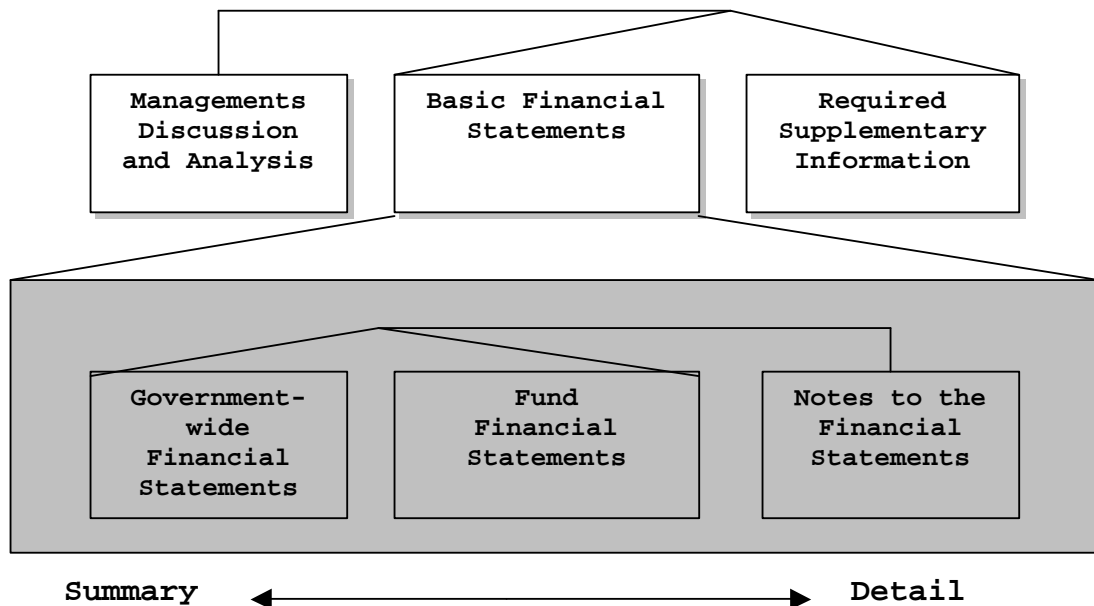


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses; food services and adult education	Instances in which the district administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statements*

The two government-wide statements report the District's *net assets* and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and community education programs are included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, and Debt Service Fund.
- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide statements. The District's *enterprise funds* (one type of proprietary fund) are the same as its business type activities but provide more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and the Community Education Fund.

- 3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others.

Agency Funds - These are funds through which the District administers and accounts for certain federal and/or state grants on behalf of other Districts and certain revenue collected for District employee purchases of pop and related expenditures.

The District is responsible for ensuring the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds includes a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

### Financial Analysis of the District as a Whole

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to 2005.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(expressed in thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Percentage Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-2006</b>
	\$	\$	\$	\$	\$	\$	
Current assets	7,013	7,128	132	279	7,145	7,407	-3.54%
Capital assets	6,016	6,257	54	64	6,070	6,321	-3.97%
<b>Total assets</b>	<b>13,029</b>	<b>13,385</b>	<b>186</b>	<b>343</b>	<b>13,215</b>	<b>13,728</b>	<b>-3.74%</b>
Current liabilities	5,998	5,888	1	128	5,999	6,016	-0.28%
Non-current liabilities	1,936	2,160	-	-	1,936	2,160	-10.37%
<b>Total liabilities</b>	<b>7,934</b>	<b>8,048</b>	<b>1</b>	<b>128</b>	<b>7,935</b>	<b>8,176</b>	<b>-2.95%</b>
<b>Net Assets</b>							
Invested in capital assets, net of related debt	4,482	4,349	54	64	4,536	4,413	2.79%
Restricted	183	190	-	-	183	190	-3.68%
Unrestricted	430	798	131	151	561	949	-40.89%
<b>Total net assets</b>	<b>5,095</b>	<b>5,337</b>	<b>185</b>	<b>215</b>	<b>5,280</b>	<b>5,552</b>	<b>-4.90%</b>

Unrestricted net assets declined by over \$390,000, primarily as a result of General Fund revenues not keeping pace with expenses due to inadequate allowable growth.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006.

**Figure A-4**  
**Change in Net Assets**  
**(Expressed in Thousands)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total School District</b>		<b>Total Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-06</b>
	\$	\$	\$	\$	\$	\$	%
Revenues:							
Program revenues:							
Charges for service and sales	657	702	434	253	1,091	955	14.24%
Operating grants, contributions and restricted interest	1,563	1,615	224	219	1,787	1,834	-2.56%
General revenues:							
Property tax	3,797	3,618	-	-	3,797	3,618	4.95%
Income surtax	280	449	-	-	280	449	-37.64%
Local option sales tax	518	514	-	-	518	514	0.78%
Unrestricted state grants	4,173	4,167	-	-	4,173	4,167	0.14%
Unrestricted investment earnings	33	19	-	-	33	19	73.68%
Other	(15)	20	-	-	(15)	20	-175.00%
Total revenues	<u>11,006</u>	<u>11,104</u>	<u>658</u>	<u>472</u>	<u>11,664</u>	<u>11,576</u>	<u>0.76%</u>
Program expenses:							
Governmental activities:							
Instruction	6,967	6,662	-	3	6,967	6,665	4.53%
Support Services	3,263	3,096	-	-	3,263	3,096	5.39%
Non-instructional programs	10	11	689	486	699	497	40.64%
Other expenses	<u>1,008</u>	<u>1,047</u>	<u>-</u>	<u>-</u>	<u>1,008</u>	<u>1,047</u>	<u>-3.72%</u>
Total expenses	<u>11,248</u>	<u>10,816</u>	<u>689</u>	<u>489</u>	<u>11,937</u>	<u>11,305</u>	<u>5.59%</u>
Change in net assets	<u>(242)</u>	<u>288</u>	<u>(31)</u>	<u>(17)</u>	<u>(273)</u>	<u>271</u>	<u>-200.74%</u>

Property tax and unrestricted state grants account for 68% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 86% of the total expenses.

## GOVERNMENTAL ACTIVITIES

Revenues for governmental activities were \$9,320,211 and expenses were \$9,383,133. In a difficult budget year the District was forced to tap into reserves to offset spending cuts done in mid year.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

**Figure A-5**  
**Total and Net Cost of Governmental Activities**  
(Expressed in Thousands)

	<b>Total Cost of Services</b>		<b>Net Cost of Services</b>		<b>Net Change</b>
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2005-06</b>
	\$	\$	\$	\$	%
Instruction	6,967	6,662	5,112	4,708	8.58%
Support Services	3,263	3,096	3,254	3,087	5.41%
Non-instructional programs	10	11	10	11	-9.09%
Other expenses	<u>1,008</u>	<u>1,047</u>	<u>653</u>	<u>693</u>	<u>-5.77%</u>
Totals	<u>11,248</u>	<u>10,816</u>	<u>9,029</u>	<u>8,499</u>	<u>6.24%</u>

- The cost financed by users of the District's programs was \$656,603.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$819,199.
- The net cost of governmental activities was financed with \$3,797,513 in property tax, \$4,173,045 in state foundation aid, and \$33,408 in interest income.

## Business Type Activities

Revenues of the District's business type activities were \$658,814 and expenses were \$689,573. The District's business type activities include the School Nutrition and Industrial Technology Construction Funds. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted the Jefferson-Scranton Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$5,095,634, five percent below last year's ending fund balances of \$5,337,383.

## **Governmental Fund Highlights**

- The District attempted to maintain its General Fund balance by cutting expenses from portions of the budget that were not already obligated, such as supplies and maintenance items. However, property tax rollbacks plus inadequate state aid increasing caused the District's General Fund to decrease by over \$229,000.
- The collection of the local option sales tax allowed the District to discontinue its Physical Plant and Equipment Levy property tax askings.

## **Proprietary Fund Highlights**

The District was able to sell another student built house. The Nutrition Fund struggles to maintain a positive balance given increases in food and salary costs. The District has attempted to maintain prices at a reasonable level.

## **Budgetary Highlights**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund, Debt Service and Special Revenue Funds are not presented in the budgetary comparison on pages 34 and 35.

## **Legal Budgetary Highlights**

The District's total actual receipts were approximately \$363,000 more than the total budgeted receipts. The most significant change resulted in the District receiving more in sales tax revenues than originally anticipated.

Total expenditures were less than budgeted due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending through its line-item budget. As a result, the District's certified budget should always exceed the actual expenditures during the year.

The District did amend the 2005-06 budget as follows:

Increased the Instruction function from \$7,525,599 to \$7,625,599.

Increased the Total Other Expenditures function from \$1,480,177 to \$1,580,177.

Increased Non-instructional Programs function from \$520,625 to \$570,625.

Increased the Total Support Services function from \$2,973,050 to \$3,048,050.

The District's total requirements & tax levies were not affected by this amendment. Increases were due to additional Federal grants and carryover expenses from the prior year.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

By the end of 2006, the District has invested more than \$270,000 in a broad range of capital assets including school buildings, athletic facilities, central kitchen, maintenance and administrative buildings, computer and audiovisual equipment, maintenance equipment, school buses, library holdings and textbooks. Total depreciation expense for the year exceeded \$410,000.

Figure A-6  
Condensed Statement of Net Assets  
(expressed in thousands)

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-2006
	\$	\$	\$	\$	\$	\$	
Land	70	70	-	-	70	70	0.00%
Land improvements	237	259	-	-	237	259	-8.49%
Buildings	4,890	5,048	-	-	4,890	5,048	-3.13%
Furniture and equipment	819	880	54	64	873	944	-7.52%
Totals	<u>6,016</u>	<u>6,257</u>	<u>54</u>	<u>64</u>	<u>6,070</u>	<u>6,321</u>	<u>-3.97%</u>

### Long - Term Debt

The \$2.2 million dollar bond issue will mature June, 2010. The District's energy notes will mature in 2007. The District's capital leases will be paid off over the next five years.

Figure A-7  
Outstanding Long-Term Obligations  
(expressed in thousands)

	Total District		Total Change
	June 30,		June 30,
	2006	2005	2005-2006
	\$	\$	
General obligation bonds	1,510	1,800	-16.11%
Leases and notes payable	<u>232</u>	<u>168</u>	<u>38.10%</u>
Total	<u>1,742</u>	<u>1,968</u>	<u>-11.48%</u>

### Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The District is experiencing decreasing enrollment the past several years. Early projections would indicate decline in official enrollment for the 2005-06 school year.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution needs to be found.
- Health insurance costs continue to be a concern for the District. Increased rates based on usage have brought this issue to the forefront when calculating the District's budget.

- Once again un-funded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.
- Voters in Greene County approved a 1 cent School Infrastructure Local Option (SILO) Sales tax in September 2003. The Greene County SILO tax went into effect on July 1, 2004. This has allowed the District to decrease property tax askings.

### **Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Michael Haluska, Superintendent, Jefferson-Scranton Community School District, 204 W Madison St, Jefferson, IA 50129.

## Basic Financial Statements

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2006

	Governmental Activities	Business Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	600,151	25,710	625,861
ISCAP investments	1,971,361	-	1,971,361
Receivables:			
Property tax:			
Current year	55,539	-	55,539
Succeeding year	3,827,375	-	3,827,375
Income surtaxes	236,342	-	236,342
Due from other governments	302,340	-	302,340
Other receivables	2,958	-	2,958
ISCAP accrued interest receivable	17,433	-	17,433
Inventories	-	106,320	106,320
Capital assets, net of accumulated depreciation (note 3)	6,015,895	53,915	6,069,810
<b>Total assets</b>	<b>13,029,394</b>	<b>185,945</b>	<b>13,215,339</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	88,760		88,760
Accrued salary and benefits	76,680	1,160	77,840
Accrued interest payable	4,808	-	4,808
ISCAP warrants payable (note 10)	1,970,000	-	1,970,000
ISCAP accrued interest payable (note 10)	30,176	-	30,176
Deferred revenue:		-	-
Succeeding year property tax			
Long term liabilities:	3,827,375	-	3,827,375
Portion due within one year:			
Bonds payable			
Midwest Power notes payable	340,000	-	340,000
Early retirement	24,038	-	24,038
Capital lease payable	158,896	-	158,896
Portion due after one year:	78,224	-	78,224
Bonds payable			
Early retirement	1,170,000	-	1,170,000
Capital lease payable	35,042	-	35,042
<b>Total liabilities</b>	<b>129,761</b>	<b>-</b>	<b>129,761</b>
	<b>7,933,760</b>	<b>1,160</b>	<b>7,934,920</b>
<b>Net assets:</b>			
Invested in capital assets, net of related debt			
Restricted for:	4,481,857	53,915	4,535,772
Management levy			
Capital projects	9,474	-	9,474
Debt service	139,741	-	139,741
Unrestricted	34,236	-	34,236
	<b>430,326</b>	<b>130,870</b>	<b>561,196</b>
<b>Total net assets</b>	<b>5,095,634</b>	<b>184,785</b>	<b>5,280,419</b>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2006

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:	<u>6,966,646</u>	<u>656,603</u>	<u>1,198,420</u>	<u>(5,111,623)</u>	<u>-</u>	<u>(5,111,623)</u>
Support services:						
Student services	356,926	-	-	(356,926)	-	(356,926)
Instructional staff services	167,782	-	-	(167,782)	-	(167,782)
Administration services	1,111,324	-	-	(1,111,324)	-	(1,111,324)
Operation and maintenance of plant services	1,082,224	-	9,441	(1,072,783)	-	(1,072,783)
Transportation services	<u>545,068</u>	<u>-</u>	<u>-</u>	<u>(545,068)</u>	<u>-</u>	<u>(545,068)</u>
	<u>3,263,324</u>	<u>-</u>	<u>9,441</u>	<u>(3,253,883)</u>	<u>-</u>	<u>(3,253,883)</u>
Non-instructional programs						
Food service operations	250	-	-	(250)	-	(250)
Community service operations	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>(10,000)</u>	<u>-</u>	<u>(10,000)</u>
	<u>10,250</u>	<u>-</u>	<u>-</u>	<u>(10,250)</u>	<u>-</u>	<u>(10,250)</u>
Other expenditures:						
Facilities acquisition and construction	194,227	-	9,275	(184,952)	-	(184,952)
Long-term debt interest	67,882	-	1,333	(66,549)	-	(66,549)
Long-term debt services	300	-	-	(300)	-	(300)
AEA flowthrough	344,408	-	344,408	-	-	-
Depreciation (unallocated)*	<u>401,126</u>	<u>-</u>	<u>-</u>	<u>(401,126)</u>	<u>-</u>	<u>(401,126)</u>
	<u>1,007,943</u>	<u>-</u>	<u>355,016</u>	<u>(652,927)</u>	<u>-</u>	<u>(652,927)</u>
Total governmental activities	11,248,163	656,603	1,562,877	(9,028,683)	-	(9,028,683)

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2006

	Program Revenues				
		Charges for	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Expenses	Service				Total
\$	\$	\$	\$	\$	\$
Business Type activities:					
Non-instructional programs:					
Nutrition services	477,599	240,752	224,536	-	(12,311)
Community education	211,974	193,526	-	-	(18,448)
Total	11,937,736	1,090,881	1,787,413	(9,028,683)	(9,059,442)
General revenues:					
Property tax levied for:					
General purposes				3,176,433	-
Management fund				201,222	-
Debt service				419,858	-
Income surtaxes				279,832	-
School infrastructure local option sales tax				518,340	-
Unrestricted state grants				4,173,045	-
Unrestricted investment earnings				33,408	-
(Loss) on disposition of fixed assets				(103,803)	-
Other				88,599	-
Total general revenue				8,786,934	-
Change in net assets				(241,749)	(30,759)
Net assets beginning of year				5,337,383	215,544
Net assets end of year				5,095,634	184,785

\* This amount excludes the depreciation that is included in the direct expense of the various programs.

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Balance Sheet  
Governmental Funds

June 30, 2006

	<u>General</u>	<u>Debt</u> <u>Service</u>	<u>Capital</u> <u>Projects</u>	<u>Nonmajor</u> <u>Special</u> <u>Revenue</u>	<u>Total</u>
	\$	\$	\$	\$	\$
<b>Assets</b>					
Cash and pooled investments	338,039	28,481	1,199	232,432	600,151
ISCAP investments	1,971,361	-	-	-	1,971,361
Receivables:					
Property tax:					
Current year	46,756	5,755	-	3,028	55,539
Succeeding year	3,151,135	396,240	-	280,000	3,827,375
Income surtax - succeeding year	236,342	-	-	-	236,342
Due from other governments	90,765	-	211,575	-	302,340
Other receivables	379	-	-	2,579	2,958
Interfund receivable	60,000	-	-	-	60,000
ISCAP accrued interest receivable	17,433	-	-	-	17,433
<b>Total assets</b>	<u>5,912,210</u>	<u>430,476</u>	<u>212,774</u>	<u>518,039</u>	<u>7,073,499</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable	75,613	-	13,033	114	88,760
Accrued salary and benefits	76,680	-	-	-	76,680
Interfund payable	-	-	60,000	-	60,000
ISCAP warrants payable (note 10)	1,970,000	-	-	-	1,970,000
ISCAP accrued interest payable (note 10)	30,176	-	-	-	30,176
Deferred revenue:					
Succeeding year property tax	3,151,135	396,240	-	280,000	3,827,375
Income surtax - succeeding year	236,342	-	-	-	236,342
Total liabilities	<u>5,539,946</u>	<u>396,240</u>	<u>73,033</u>	<u>280,114</u>	<u>6,289,333</u>
Fund balances:					
Reserved for debt service	-	34,236	-	-	34,236
Reserved for capital projects	-	-	139,741	-	139,741
Unreserved	372,264	-	-	237,925	610,189
Total liabilities and fund balances	<u>372,264</u>	<u>34,236</u>	<u>139,741</u>	<u>237,925</u>	<u>784,166</u>
<b>Total liabilities and fund balances</b>	<u>5,912,210</u>	<u>430,476</u>	<u>212,774</u>	<u>518,039</u>	<u>7,073,499</u>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2006

<b>Total fund balances of governmental funds (Exhibit C)</b>		<b>\$ 784,166</b>
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>		
Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a receivable in the Statement of Net Assets.		236,342
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.		6,015,895
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(4,808)
Long-term liabilities, including bonds payable and capital loan notes payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		
General obligation bonds	(1,510,000)	
Midwest Power note payable	(24,038)	
Early retirement	(193,938)	
Capital leases payable	<u>(207,985)</u>	<u>(1,935,961)</u>
<b>Net assets of governmental activities (Exhibit A)</b>		<b><u>\$ 5,095,634</u></b>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
	\$	\$	\$	\$	\$
Revenues:					
Local sources:					
Local tax	3,431,802	419,858	518,340	201,222	4,571,222
Tuition	656,603	-	-	-	656,603
Other	122,007	1,034	9,275	388,961	521,277
State sources	4,967,107	299	-	144	4,967,550
Federal sources	369,102	-	-	-	369,102
Total revenues	<u>9,546,621</u>	<u>421,191</u>	<u>527,615</u>	<u>590,327</u>	<u>11,085,754</u>
Expenditures:					
Instruction:	<u>6,359,749</u>	<u>-</u>	<u>-</u>	<u>544,379</u>	<u>6,904,128</u>
Support services:					
Student services	356,926	-	-	-	356,926
Instructional staff services	167,782	-	-	-	167,782
Administration services	1,094,230	-	4,188	12,906	1,111,324
Operation and maintenance of plant services	1,002,987	-	23,104	56,133	1,082,224
Transportation services	439,660	-	90,292	15,116	545,068
	<u>3,061,585</u>	<u>-</u>	<u>117,584</u>	<u>84,155</u>	<u>3,263,324</u>
Non-instructional programs:					
Food service operations	-	-	-	250	250
Community service operations	10,000	-	-	-	10,000
	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>250</u>	<u>10,250</u>
Other expenditures:					
Facilities acquisition and construction	-	-	291,613	-	291,613
Long-term debt:					
Principal	-	452,526	-	-	452,526
Interest	-	68,685	-	-	68,685
Services	-	300	-	-	300
AEA flowthrough	344,408	-	-	-	344,408
	<u>344,408</u>	<u>521,511</u>	<u>291,613</u>	<u>-</u>	<u>1,157,532</u>
Total expenditures	<u>9,775,742</u>	<u>521,511</u>	<u>409,197</u>	<u>628,784</u>	<u>11,335,234</u>

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances  
Governmental Fund Types

Year ended June 30, 2006

	General	Debt Service	Capital Projects	Non-major Special Revenue	Total
	\$	\$	\$	\$	\$
Excess (deficiency) of revenues over (under) expenditures	<u>(229,121)</u>	<u>(100,320)</u>	<u>118,418</u>	<u>(38,457)</u>	<u>(249,480)</u>
Other financing sources (uses):					
Operating transfers in	-	103,747	-	-	103,747
Operating transfers out	<u>-</u>	<u>-</u>	<u>(103,747)</u>	<u>-</u>	<u>(103,747)</u>
	<u>-</u>	<u>103,747</u>	<u>(103,747)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financial sources over (under) expenditures	(229,121)	3,427	14,671	(38,457)	(249,480)
Fund balances beginning of year	<u>601,385</u>	<u>30,809</u>	<u>125,070</u>	<u>276,382</u>	<u>1,033,646</u>
Fund balances end of year	<u><u>372,264</u></u>	<u><u>34,236</u></u>	<u><u>139,741</u></u>	<u><u>237,925</u></u>	<u><u>784,166</u></u>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances - Governmental Funds  
to the Statement of Activities

Year ended June 30, 2006

Net change in fund balances - total governmental funds (Exhibit E) \$ (249,480)

Amounts reported for governmental activities in the  
statement of activities are different because:

Income surtax receivable at June 30, 2006 is not recognized as income until received in the governmental funds, however it is shown as a revenue in the Statement of Activities. 24,463

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 263,440	
Depreciation expense	<u>(401,126)</u>	(137,686)

Recognition of loss on disposition of assets with basis remaining (103,803)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments exceeded issues, as follows:

Issued	(258,411)	
Repayments	<u>544,883</u>	286,472

Early retirement expenses reported in the Statement of Activities do not require the use current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Additions	(162,775)	
Payments	<u>100,257</u>	(62,518)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due. 803

Change in net assets of governmental activities (Exhibit B) \$ (241,749)

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Combining Statement of Net Assets

## Proprietary Funds

Year ended June 30, 2006

	<u>School Nutrition</u>	<u>Industrial Technology Construction</u>	<u>Total</u>
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	24,869	841	25,710
Inventories	11,593	94,727	106,320
Capital assets, net of accumulated depreciation	<u>53,915</u>	<u>-</u>	<u>53,915</u>
<b>Total assets</b>	<u>90,377</u>	<u>95,568</u>	<u>185,945</u>
<b>Liabilities</b>			
Accrued payroll and benefits	<u>1,160</u>	<u>-</u>	<u>1,160</u>
<b>Total liabilities</b>	<u>1,160</u>	<u>-</u>	<u>1,160</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	53,915	-	53,915
Unrestricted	<u>35,302</u>	<u>95,568</u>	<u>130,870</u>
<b>Total net assets</b>	<u>89,217</u>	<u>95,568</u>	<u>184,785</u>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Combining Statement of Revenues, Expenses and Changes in Net Assets  
Proprietary Funds

Year ended June 30, 2006

	School Nutrition	Industrial Technology Construction	Total
	\$	\$	\$
Operating revenue:			
Local sources:			
Charges for services	<u>240,752</u>	<u>193,526</u>	<u>434,278</u>
Operating expenses:			
Non-instructional programs:			
Food service operations:			
Salaries	184,571	-	184,571
Benefits	30,569	-	30,569
Services	4,843	-	4,843
Supplies	244,552	-	244,552
Other	452	-	452
Depreciation	<u>12,612</u>	<u>-</u>	<u>12,612</u>
	<u>477,599</u>	<u>-</u>	<u>477,599</u>
Other enterprise operations:			
Other	<u>-</u>	<u>211,974</u>	<u>211,974</u>
	<u>-</u>	<u>211,974</u>	<u>211,974</u>
Total operating expenses	<u>477,599</u>	<u>211,974</u>	<u>689,573</u>
Operating (loss)	<u>(236,847)</u>	<u>(18,448)</u>	<u>(255,295)</u>
Non-operating revenues:			
Interest on investments	464	-	464
State sources	6,511	-	6,511
Federal sources	<u>217,561</u>	<u>-</u>	<u>217,561</u>
	<u>224,536</u>	<u>-</u>	<u>224,536</u>
Change in net assets	(12,311)	(18,448)	(30,759)
Net assets beginning of year	<u>101,528</u>	<u>114,016</u>	<u>215,544</u>
Net assets end of year	<u><u>89,217</u></u>	<u><u>95,568</u></u>	<u><u>184,785</u></u>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Combining Statement of Cash Flows  
Proprietary Fund

Year ended June 30, 2006

	School Nutrition	Industrial Technology Construction	Total
	\$	\$	\$
Cash flows from operating activities:			
Cash received from sale of services	240,752	193,526	434,278
Cash payments to employees for services	(213,979)	-	(213,979)
Cash payments to suppliers for goods or services	(228,967)	(87,255)	(316,222)
Net cash provided by (used in) operating activities	(202,194)	106,271	(95,923)
Cash flows from non-capital financing activities:			
State grants received	6,511	-	6,511
Federal grants received	193,512	-	193,512
Net cash provided by non-capital financing activities	200,023	-	200,023
Cash flows from capital financing activities:			
Payoff of bank loans	-	(124,719)	(124,719)
Acquisition of fixed assets	(2,650)	-	(2,650)
Net cash provided (used in) by capital financing activities	(2,650)	(124,719)	(127,369)
Cash flows from investing activities:			
Interest on investments	464	-	464
Net increase (decrease) in cash and cash equivalents	(4,357)	(18,448)	(22,805)
Cash and cash equivalents beginning of year	29,226	19,289	48,515
Cash and cash equivalents end of year	24,869	841	25,710
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>			
Operating income (loss)	(236,847)	(18,448)	(255,295)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:			
Depreciation	12,612	-	12,612
Commodities used	24,049	-	24,049
Decrease(increase) in inventory	(3,168)	127,574	124,406
Increase in accrued payroll and benefits	1,160	-	1,160
(Decrease) in accrued interest payable	-	(2,855)	(2,855)
	(202,194)	106,271	(95,923)
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>			
Current assets:			
Cash	24,869	841	25,710
<b>Non-cash investing, capital and financing activities:</b>			

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Statement of Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Flex Spending Fund
	<u>\$</u>
<b>Assets</b>	
Cash	<u>2,937</u>
<b>Total assets</b>	<u>2,937</u>
<b>Liabilities</b>	
Other payables	<u>2,937</u>
<b>Total liabilities</b>	<u>2,937</u>
<b>Net Assets</b>	
Reserved for flex spending	<u><u>-</u></u>

See notes to financial statements.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

Year ended June 30, 2006

	Flex Spending Fund
	<u>\$</u>
Additions:	
Local sources:	
Miscellaneous	64,327
Deductions:	
Regular instruction:	
Benefits	<u>66,301</u>
Change in net assets	(1,974)
Net assets beginning of year	<u>4,911</u>
Net assets end of year	<u><u>2,937</u></u>

See notes to financial statements.

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

Jefferson-Scranton Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. The geographic area served includes the Cities of Jefferson and Scranton, Iowa, and agricultural territory in Greene County. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

A. Reporting Entity

For financial reporting purposes, Jefferson-Scranton Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. Jefferson-Scranton Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Greene County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of Interfund activity has been removed from these statements. Governmental activities which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt that are attributable to the acquisition, construction or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's major proprietary funds are the Enterprise, School Nutrition and Industrial Technology Construction Funds. These funds are used to account for the food service and student built house.

#### C. Measurement Focus and Basis of Accounting

The government-wide and the proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2005.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Interfund Receivable/Payable - The General Fund loaned \$60,000 to the Capital Projects to allow summer projects to be completed and paid for in a timely manner. The money will be repaid in August, 2006.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture and equipment, are reported in the applicable governmental or business type activities columns in the government-wide statement of net assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 2,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	1,000
Other furniture and equipment	1,000

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Salaries and Benefits Payable - Payroll and related expenditures for employees with annual contracts corresponding to the current school year, which is payable in July, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2006.

Long-term obligations - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the statement of net assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### **E. Budgeting and Budgetary Control**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the support services function.

#### **(2) Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public fund.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2006.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
	\$	\$	\$	\$
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>69,762</u>	<u>-</u>	<u>-</u>	<u>69,762</u>
Capital assets being depreciated:				
Improvements other than buildings	625,269	10,037	-	635,306
Buildings	8,993,810	66,601	55,933	9,004,478
Furniture and Equipment	<u>3,228,625</u>	<u>186,802</u>	<u>91,510</u>	<u>3,323,917</u>
Total capital assets being depreciated	<u>12,847,704</u>	<u>263,440</u>	<u>147,443</u>	<u>12,963,701</u>
Less accumulated depreciation for:				
Improvements other than buildings	365,923	31,765	-	397,688
Buildings	3,945,828	167,823	-	4,113,651
Furniture and Equipment	<u>2,348,331</u>	<u>201,538</u>	<u>43,640</u>	<u>2,506,229</u>
Total accumulated depreciation	<u>6,660,082</u>	<u>401,126</u>	<u>43,640</u>	<u>7,017,568</u>
Total capital assets being depreciated, net	<u>6,187,622</u>	<u>(137,686)</u>	<u>103,803</u>	<u>5,946,133</u>
Governmental activities, capital assets, net	<u>6,257,384</u>	<u>(137,686)</u>	<u>103,803</u>	<u>6,015,895</u>
<b>Business type activities</b>				
Furniture and Equipment	241,905	2,650	4,067	240,488
Less accumulated depreciation	<u>178,028</u>	<u>12,612</u>	<u>4,067</u>	<u>186,573</u>
Business type activities capital assets, net	<u>63,877</u>	<u>(9,962)</u>	<u>-</u>	<u>53,915</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Unallocated				<u>401,126</u>
Business type activities:				
Food service operations				<u>12,612</u>

### (4) Bonds Payable

Details of the District's June 30, 2006 bonded indebtedness are as follows:

Year Ending June 30,	Bond Issue of August 1, 1993			
	Rates %	Interest \$	Principal \$	Total \$
2007	3.50-3.70	55,940	340,000	395,940
2008	3.80-3.90	42,680	370,000	412,680
2009	4.00	28,250	400,000	428,250
2010	4.00-4.125	<u>12,250</u>	<u>400,000</u>	<u>412,250</u>
Total		<u>139,120</u>	<u>1,510,000</u>	<u>1,649,120</u>

**(5) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005, and 2004 were \$360,746, \$357,726, and \$346,063 respectively, equal to the required contributions for each year.

**(6) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$344,408 for year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(7) Changes in Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2006 is as follows:

	Capital Lease <u>Payable</u>	General Obligation <u>Bonds</u>	Early <u>Retirement</u>	Midland <u>Power</u>	<u>Total</u>
Balance beginning of year	\$120,419	1,860,000	131,420	48,046	2,159,915
Additions	258,411	-	162,775	-	421,186
Reductions	<u>170,845</u>	<u>350,000</u>	<u>100,257</u>	<u>24,038</u>	<u>645,140</u>
Balance end of year	<u>\$207,985</u>	<u>1,510,000</u>	<u>193,938</u>	<u>24,038</u>	<u>1,935,961</u>

**(8) Early Retirement**

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is equal to the employee's salary calculated by using the current year regular salary schedule, less the current year base pay. Early retirement benefits paid during the year ended June 30, 2006 totaled \$100,257.

**(9) Midland Power Notes Payable**

During the fiscal year ending June 30, 2000, the District borrowed \$168,265 from Midland Power Cooperative for the purpose of adding a Wide Area Network between Jefferson and Scranton as well as for the upgrading of equipment in the business/office education lab. The loan is interest free and will be repaid in seven annual installments of \$24,038 beginning July 1, 2000. Funds will be provided from proceeds of the District's School Infrastructure Local Option Sales Tax.

**(10) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Investment</u>	<u>Accrued Interest Receivable</u>	<u>Warrants Payable</u>	<u>Accrued Interest Payable</u>
2005-06A	6/30/05	6/30/06	\$ -	-	-	-
2005-06B	1/26/06	1/26/07	842,932	17,082	840,000	21,298
2006-07A	6/28/06	6/28/07	<u>1,128,429</u>	<u>351</u>	<u>1,130,000</u>	<u>8,878</u>
Total			<u>\$1,971,361</u>	<u>17,433</u>	<u>1,970,000</u>	<u>30,176</u>

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2006 is as follows:

<u>Series</u>	<u>Balance Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance End of Year</u>
2005-06A	\$ <u>-</u>	<u>325,000</u>	<u>325,000</u>	<u>-</u>

The warrants bear an interest rate and the proceeds of the warrants are invested at an interest rate as shown below:

<u>Series</u>	<u>Interest Rates on Warrants</u>	<u>Interest Rates on Investments</u>
2005-06A	3.50%	3.903%
2005-06B	4.50%	4.772%
2006-07A	4.50%	5.676%

**(11) Risk Management**

Jefferson-Scranton Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(12) Capital Leases**

The District has a \$261,354 lease for the acquisition of computers that requires annual payments of \$65,339 that will be completed in Fiscal Year 2010.

The District has a lease for the acquisition of computers that requires annual payments of \$14,639. There is one payment remaining to be paid in 2007.

**(13) Commitments**

The District entered into a contract for the lease/purchase of a closed circuit TV project that will be installed in fiscal year 2007.

## Required Supplementary Information

**JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2006

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual Variance - Positive (Negative)
	Actual	Actual	Actual	Original	Final	
	\$	\$	\$	\$	\$	\$
Revenues:						
Local sources	5,749,102	434,742	6,183,844	5,965,436	5,965,436	218,408
State sources	4,967,550	6,511	4,974,061	5,114,508	5,114,508	(140,447)
Federal sources	369,102	217,561	586,663	561,000	561,000	25,663
Total revenues	<u>11,085,754</u>	<u>658,814</u>	<u>11,744,568</u>	<u>11,640,944</u>	<u>11,640,944</u>	<u>103,624</u>
Expenditures:						
Instruction	6,904,128	211,974	7,116,102	7,525,599	7,625,599	509,497
Support services	3,263,324	-	3,263,324	2,973,050	3,048,050	(215,274)
Non-instructional programs	10,250	477,599	487,849	520,625	570,625	82,776
Other expenditures	1,157,532	-	1,157,532	1,480,177	1,580,177	422,645
Total expenditures	<u>11,335,234</u>	<u>689,573</u>	<u>12,024,807</u>	<u>12,499,451</u>	<u>12,824,451</u>	<u>799,644</u>
Excess (deficiency) of revenues over (under) expenditures	(249,480)	(30,759)	(280,239)	(858,507)	(1,183,507)	903,268
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(249,480)	(30,759)	(280,239)	(858,507)	(1,183,507)	903,268
Balance beginning of year	<u>1,033,646</u>	<u>215,544</u>	<u>1,249,190</u>	<u>1,124,974</u>	<u>1,124,974</u>	<u>(124,216)</u>
Balance end of year	<u><u>784,166</u></u>	<u><u>184,785</u></u>	<u><u>968,951</u></u>	<u><u>266,467</u></u>	<u><u>(58,533)</u></u>	<u><u>1,027,484</u></u>

See accompanying independent auditor's report.

**JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT**

**Notes to Required Supplementary Information - Budgetary Reporting**

Year ended June 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$325,000.

During the year ended June 30, 2006, expenditures exceeded the amount budgeted in the support services function. The District did not exceed the General Fund unspent authorized budget.

## Other Supplementary Information

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Combining Balance Sheet  
Nonmajor Special Revenue Funds

June 30, 2006

	<u>Management</u>	<u>Student</u> <u>Activity</u>	<u>Total</u>
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	6,560	225,872	232,432
Property tax receivable:			
Current year	3,028	-	3,028
Succeeding year	280,000	-	280,000
Other receivables	<u>-</u>	<u>2,579</u>	<u>2,579</u>
<b>Total assets</b>	<u>289,588</u>	<u>228,451</u>	<u>518,039</u>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	114	-	114
Deferred revenue:			
Succeeding year property tax	<u>280,000</u>	<u>-</u>	<u>280,000</u>
	<u>280,114</u>	<u>-</u>	<u>280,114</u>
Fund balance:			
Unreserved fund balances	<u>9,474</u>	<u>228,451</u>	<u>237,925</u>
<b>Total liabilities and fund balances</b>	<u>289,588</u>	<u>228,451</u>	<u>518,039</u>

See accompanying independent auditor's report.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2006

	Management	Student Activity	Total
	\$	\$	\$
Revenues:			
Local sources:			
Local tax	201,222	-	201,222
Other	9,297	379,664	388,961
State sources	144	-	144
Total revenues	<u>210,663</u>	<u>379,664</u>	<u>590,327</u>
Expenditures:			
Instruction	150,323	394,056	544,379
Support services:			
Administration services	12,906	-	12,906
Plant operation and maintenance	56,133	-	56,133
Student transportation	15,116	-	15,116
Noninstructional programs:			
Food service operations	250	-	250
Other expenditures:			
Facilities acquisition and construction	-	-	-
Total expenditures	<u>234,728</u>	<u>394,056</u>	<u>628,784</u>
(Deficiency) of revenues (under) expenditures	(24,065)	(14,392)	(38,457)
Fund balances beginning of year	<u>33,539</u>	<u>242,843</u>	<u>276,382</u>
Fund balances end of year	<u><u>9,474</u></u>	<u><u>228,451</u></u>	<u><u>237,925</u></u>

See accompanying independent auditor's report.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Elementary Activities:				
JE/SG Library	8	2,885	2,869	24
JE/SG Student Fund	2,393	2,429	3,047	1,775
South Grade Playground	105	-	-	105
South Grade Field Trip	280	120	-	400
	<u>2,786</u>	<u>5,434</u>	<u>5,916</u>	<u>2,304</u>
Scranton Activities:				
Scranton Student Fund	1,403	2,543	1,842	2,104
Scranton Instrumental Music	818	1,395	716	1,497
Scranton Library	997	3,129	3,513	613
Scranton 5th Grade Snack Shop	508	489	799	198
Scranton Nurse Emergency Fund	835	183	446	572
	<u>4,561</u>	<u>7,739</u>	<u>7,316</u>	<u>4,984</u>
Middle School:				
Middle School Library	29	109	38	100
Middle School Music	1,277	18,684	22,197	(2,236)
Middle School Student Fund	948	51,860	49,673	3,135
Middle School Yearbook	4,205	1,401	1,226	4,380
	<u>6,459</u>	<u>72,054</u>	<u>73,134</u>	<u>5,379</u>
Athletics:				
Baseball	3,344	8,793	7,488	4,649
Boys Basketball	5,858	10,477	7,876	8,459
Boys Golf	161	2,897	2,951	107
Boys Track	458	12,375	12,833	-
Cheerleaders	3,799	5,778	6,114	3,463
Cross Country	2,705	1,698	2,677	1,726
Football	19,699	29,096	28,233	20,562
Girls Basketball	3,722	11,344	9,400	5,666
Girls Golf	713	1,904	1,761	856
Girls Track	326	14,325	14,651	-
Miscellaneous Athletic Activity	122	3,488	2,616	994
Softball	3,666	6,618	12,176	(1,892)
Tournaments	11,575	12,839	24,296	118
Volleyball	4,249	6,364	7,807	2,806
Wrestling	615	8,172	10,393	(1,606)
Concessions	-	-	-	-
	<u>61,012</u>	<u>136,168</u>	<u>151,272</u>	<u>45,908</u>
Athletic Fundraisers	<u>72,697</u>	<u>18,354</u>	<u>15,196</u>	<u>75,855</u>

**JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT**

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
High School Clubs/Organizations:				
Art Club	2,078	1,460	2,514	1,024
Business Professional of America	1,470	53	160	1,363
Drama	826	717	1,405	138
Fashion Club	341	2,194	1,666	869
FFA	1,940	17,752	17,440	2,252
French Club	5,338	5,833	7,212	3,959
Instrumental Music	1,670	9,186	8,937	1,919
International Club	767	-	323	444
Pre-school Home Economics	886	2,177	2,477	586
Ram Restaurant	3,080	10,927	8,977	5,030
Juvenile Court Program	587	-	196	391
Spanish	10,927	12,352	19,848	3,431
Speech	3,904	7,582	7,467	4,019
VICA Club	(3,258)	4,640	4,400	(3,018)
Debate Club	508	400	431	477
Vocal Music	1,681	2,418	2,641	1,458
Yearbook	(2,139)	6,282	5,657	(1,514)
Flags	1,944	1,896	1,238	2,602
Ram Trolley	5,332	829	1,590	4,571
	<u>37,882</u>	<u>86,698</u>	<u>94,579</u>	<u>30,001</u>
High School Activities:				
Industrial Technology Donations	2,771	1,502	-	4,273
Industrial Students	(3,589)	15,558	18,031	(6,062)
Physics Club	124	-	-	124
High School Library Memorial	-	606	82	524
Senior High Student Council	288	9,779	9,170	897
National Honor Society	49	1,164	807	406
	<u>(357)</u>	<u>28,609</u>	<u>28,090</u>	<u>162</u>
Graduating Class:				
Class of 2005	-	-	-	-
Class of 2006	-	517	517	-
Class of 2007	785	3,418	3,601	602
Class of 2008	-	968	160	808
	<u>785</u>	<u>4,903</u>	<u>4,278</u>	<u>1,410</u>
Miscellaneous Funds	<u>4,853</u>	<u>-</u>	<u>1,670</u>	<u>3,183</u>

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2006

Account	Balance Beginning of Year \$	Revenues \$	Expenditures \$	Balance End of Year \$
Concessions:				
JE Concession	760	3,098	3,029	829
South Grade Concession	685	882	790	777
Scranton Concession	325	2,225	2,673	(123)
Middle School Concession	1,561	683	1,320	924
High School Concession	907	3,917	4,793	31
	<u>4,238</u>	<u>10,805</u>	<u>12,605</u>	<u>2,438</u>
Interest Income	<u>47,927</u>	<u>8,900</u>	<u>-</u>	<u>56,827</u>
Totals	<u><u>242,843</u></u>	<u><u>379,664</u></u>	<u><u>394,056</u></u>	<u><u>228,451</u></u>

See accompanying independent auditor's report.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Comparison of Taxes and Intergovernmental Revenues  
For the Last Four Years

	Years ended June 30,			
	2006	2005	2004	2003
Local sources:				
Property tax	3,795,805	3,615,784	3,991,504	4,046,724
Income surtax	255,369	236,748	214,032	212,575
Local option sales tax	518,340	514,470	-	-
Mobile home tax	1,706	2,018	1,945	1,947
	<u>4,571,220</u>	<u>4,369,020</u>	<u>4,207,481</u>	<u>4,261,246</u>
State sources:				
State foundation aid	4,176,539	4,167,178	3,850,214	4,123,237
Instructional support state aid	46,756	51,443	49,266	41,936
Educational excellence programs:				
Phase I	68,010	68,412	67,831	68,412
Phase II	90,028	92,143	93,564	99,940
Phase III	-	-	-	24,832
Vocational education aid	12,921	13,226	14,785	14,981
Revenue in lieu of taxes - military credit	2,719	2,787	2,268	3,273
AEA flow-through	344,408	343,759	347,828	376,669
Teacher mentoring	6,500	3,900	5,200	3,900
Teacher compensation	114,563	99,397	90,864	82,914
Iowa Early Intervention Block Grant	65,016	71,015	76,882	85,789
Evaluator training	-	-	1,000	5,000
Professional development	40,089	-	-	-
School nutrition	6,511	6,788	6,908	7,405
Other	-	7,527	887	-
	<u>4,974,060</u>	<u>4,927,575</u>	<u>4,607,497</u>	<u>4,938,288</u>
Federal sources:				
Title I Grants to Local Educational Agencies	162,682	174,505	174,642	172,748
Safe and Drug Free Schools - State Grant	10,718	6,200	4,406	8,439
Innovative Education Program Strategies	3,897	6,412	9,129	9,497
National School Lunch Program	154,411	150,072	150,448	151,295
School Breakfast Program	39,101	37,812	36,585	32,044
Food Distribution	24,049	23,285	35,700	36,619
Improving Teacher Quality - State Grant	49,873	49,915	49,015	54,463
Special Education - Grants to States Positive (IDEA Part B)	60,288	41,387	47,261	23,586
Special Education - Grants to States Positive Behavior Program	-	5,920	5,920	4,524
Vocational Education - Basic Grant	24,594	24,196	23,811	44,942
Team Nutrition	-	65,411	93,241	32,250
Comprehensive School Reform	50,000	50,000	-	-
Grants for Assessments and Related Activities	7,050	7,368	13,585	-
Education Technology - States Grant	-	-	-	50,000
	<u>586,663</u>	<u>642,483</u>	<u>643,743</u>	<u>620,407</u>
	<u>10,131,943</u>	<u>9,939,078</u>	<u>9,458,721</u>	<u>9,819,941</u>

See accompanying independent auditor's report.

## JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

## Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Expenditures</u> \$
Indirect:			
Department of Agriculture:			
Iowa Department of Education:			
Food Distribution	10.550	FY06	<u>24,049</u>
School Nutrition Cluster Programs:			
National School Breakfast Program	10.553	FY06	39,101
National School Lunch Program	10.555	FY06	<u>154,411</u>
			<u>193,512</u>
Department of Education:			
Iowa Department of Education:			
Title I Grants to Local Educational Agencies	84.010	3195-G-06	162,682
Safe and Drug-Free Schools and Communities - States Grants	84.186	FY06	10,718
Innovative Education Program Strategies	84.298	FY06	3,897
Grants for Assessments and Related Activities	84.369	FY06	7,050
Improving Teacher Quality - States Grants	84.367	FY06	49,873
Vocational Education - Basic Grants to States	84.048	FY06	24,594
Comprehensive School Reform	84.332	FY06	50,000
Prairie Lakes Area Education Agency 8			
Special Education - Grants to States (IDEA Part B)	84.027	FY06	<u>60,288</u>
Total			<u>586,663</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards included the federal grant activity of Jefferson-Scranton Community School District and is presented on the accrual or modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

To the Board of Education of the  
Jefferson-Scranton Community School District:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the Jefferson-Scranton Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated October 19, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Jefferson-Scranton Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 06-II-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson-Scranton Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Jefferson-Scranton Community School District and other parties to whom Jefferson-Scranton Community School District may report, including federal awarding agencies and pass through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Jefferson-Scranton Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 19, 2006

**Independent Auditor's Report on Compliance with Requirements  
Applicable to Each Major Program and on Internal Control  
over Compliance in Accordance with OMB Circular A-133**

To the Board of Education of the  
Jefferson-Scranton Community School District:

**Compliance**

We have audited the compliance of Jefferson-Scranton Community School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Jefferson-Scranton Community School District's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants agreements applicable to each of its major federal programs is the responsibility of Jefferson-Scranton Community School District's management. Our responsibility is to express an opinion on Jefferson-Scranton Community School District's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Jefferson-Scranton Community School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Jefferson-Scranton Community School District's compliance with those requirements.

In our opinion Jefferson-Scranton Community School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

**Internal Control Over Compliance**

The management of Jefferson-Scranton Community School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Jefferson-Scranton Community School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect Jefferson-Scranton Community School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grant agreements. The reportable condition is described as item 06-III-A of the accompanying Schedule of Findings and Questions Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe item 06-III-A is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Jefferson-Scranton Community School District and other parties to whom Jefferson-Scranton Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

**BRUCE D. FRINK**  
**Certified Public Accountant**

October 19, 2006

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part I: Summary of the Independent Auditor's Results**

- (a) An unqualified opinion was issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including a material weakness.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) Reportable conditions in internal control over major programs were disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit disclosed an audit finding which was required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) Major programs were as follows:
  - CFDA Number 84.010 - Title I Grants to Local Education AgenciesSchool Nutrition Clustered Programs:
  - CFDA Number 10.555 - National School Lunch Program
  - CFDA Number 10.553 - School Breakfast Program
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Jefferson-Scranton Community School District did not qualify as a low-risk auditee.

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part II: Findings Related to the Basic Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

06-II-A      SEGREGATION OF DUTIES

Comment - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Although the District does a fine job of dividing incompatible duties among existing personnel, the District Secretary still has the ability to override the system without the knowledge of any other personnel.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

06-II-B      CREDIT CARDS

Comment - We noted that each building administrator has a credit card in their possession.

Recommendation - Although no improprieties were noted, we recommend that the District limit the number of credit cards it uses and that possession of all cards be maintained by the District's business office. Cards may be checked out as necessary with a log being maintained by the District's business office.

Response - We will investigate possible alternatives to the current system.

Conclusion - Response accepted.

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part III: Findings For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

CFDA Number: 84.101 Title I Grants to Local Education Agencies

Agency Number: 6219-G-06

Federal Award Year: 2006

US Department of Education

Passed through Iowa Department of Education

CFDA Number: 10.553 School Breakfast Program

10.555 National School Lunch Program

Federal Award Year: 2006

US Department of Agriculture

Passed through Iowa Department of Education

06-III-A Segregation of Duties over Federal Funds - The District did not properly segregate custody, record-keeping and reconciling functions for funds, including those related to Federal programs.

Recommendation - We recommend that the District continue to segregate incompatible duties as much as possible, reviewing them annually to achieve the maximum segregation possible within the existing personnel. We realize that the District Secretary has large number of required duties under the Code of Iowa which makes the situation difficult. We also realize that the District has a limited budget within which to hire additional personnel.

Response - We will continue to review and implement new procedures, when possible, to achieve the maximum segregation with existing personnel.

Conclusion - Response accepted.

**Part IV: Other Findings Related to Required Statutory Reporting:**

06-IV-A Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were not exceeded during the year ended June 30, 2006.

06-IV-B Certified Budget - Expenditures for the year ended June 30, 2006, exceeded the amount budgeted in the Support Services function.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.

Conclusion - Response accepted.

JEFFERSON-SCRANTON COMMUNITY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

**Part IV: Other Findings Related to Required Statutory Reporting:**  
**(continued):**

- 06-IV-C      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 06-IV-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 06-IV-E      Business Transactions - No business transactions between the District and District officials or employees were noted.
- 06-IV-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 06-IV-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 06-IV-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 06-IV-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 06-IV-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- 06-II-A      Sale of Equipment - We noted that the District sold equipment without proper advertising as required in Code of Iowa Section 297.22.
- Recommendation - We recommend that the District publicly advertise the sale of all property at least two weeks prior to date of sale as required by Section 297.22.
- Response - We will advertise any future sales.
- Conclusion - Response accepted.